Whiteside & Associates

TRANSPORTATION REPORT

From: Terry Whiteside

To: Montana Wheat & Barley Committee

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The Signals Continue to be Mixed About the Future of the Economy - Are Things Getting Better or Worse?

Growth?: The Cass Freight Index for U.S. shipments jumped to its highest level in more than three years in September, growing 7.5 percent over the same month a year ago and defying suggestions of a new downturn in the American economy.

In trucking , shippers need to do more to help trucking companies reduce rising driver turnover rates and help keep transportation costs in line, a transportation consultant says. This suggests that trucking is also continuing to grow.

In a surprising report, there seems to be a shift of jobs going to China and rather jobs coming back to the U.S.

A big shift of manufacturing from China to the U.S. and other parts of North America will create up to 3 million U.S. jobs in coming years, says a study from Boston Consulting Group.

Over the past few weeks the freight economy has seemed almost bullish even as the Economic Cycle Research Institute and others warn of impeding recession.

Diesel prices across the United States fell 2.8 cents in the ending Oct. 10, dropping down to under $4 per gallon in all regions for the first time in six weeks as crude oil prices crept upward.

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Non-Growth?: Economic Research Cycle: A recession forecast from the Economic Research Cycle Institute could point to a slump in rail freight volumes in coming months based on past correlations, says analyst Matthew Troy of Susquehanna International Group.

In a sign of things getting better, North American railcar owners pulled 11,087 more units out of sidings and other storage areas in September, for the largest drawdown of the idled car fleet since March.

U.S. trade volume is expected to rise 62.3 percent in the next 15 years but the U.S. share of global trade will fall behind China's, according to a new forecast by HSBC Bank.

If, as traditional thinking has focused in the past, that transportation (rail and truck) are lead indicators of economic forecasts - then those indicators for both rail and truck are showing continued growth. Many analyst insist that while the railroads in the past were good predictors of future economic conditions - today's railroads are so dominant in the economies that they transport (i.e market dominant) that they no longer are pushed around by the economic conditions but in fact have shown that they can grow revenues even when they have little or no growth in volume.

Time will tell but if one reads the tea leaves of the transport industry - there does not appear, at this time, to be another recession on the horizon.

On the Legislative Agendas

Transportation and Infrastructure Committee Chairman John Mica said "a national infrastructure bank is dead on arrival in the House," after some senators proposed pairing the bank portion of Obama's failed jobs plan with tax breaks for corporations.

President Obama designated six large transportation construction projects for fast-track permitting and environmental reviews to get them into their building phase faster and spur job creation.

That put the Department of Transportation overseeing the most infrastructure projects of any part of government under an expedited clearance program that Obama ordered. In all, he listed 14 projects under the Interior, Agriculture, Commerce and Housing and Urban Development departments.

Obama on Aug. 31 directed the secretaries of those departments to each list up to three high-priority infrastructure projects that could get moving faster with expedited treatment. Those are also efforts the administration can take without asking Congress for approval as it debates his jobs plan.

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The DOT's larger list that made the White House cut include projects spread around the country. They are:

— Cut permit review time to replace the Whittier Bridge on Interstate 95 in Massachusetts with a higher-capacity one to handle projected traffic for the next 20 years.

— A huge project to replace New York's "deficient" Tappan Zee Bridge, over the Hudson River on I-285, could be sped up by several years. The White House said this structure is "a critical link in the regional transportation network."

— The rest range from transit rail projects for Los Angeles International Airport and Baltimore, a new highway from Provo, Utah's airport to I-15 and a next-generation aviation pilot project for Houston's two airports.

Agriculture's list includes sharp speedups of wind power projects in California and Vermont, plus a series of oil, gas and power line projects in the Dakotas.

STB - BNSF 'Premiums' Case Starts This Week with the Filing of Opening Statements in FD 35506

BNSF has added into its "rate base" for 2010 approximately $7.6 billion of the $18 billion "acquisition premium" that Berkshire Hathaway paid for BNSF. This "acquisition premium" is the amount above the current share price that Berkshire paid to purchase all of the outstanding stock of the BN. The Western Coal Traffic League petitioned the STB to institute a proceeding to determine if this premium should be added to the "rate base" for regulatory purposes and for purposes of determining the revenue adequacy of BNSF in 2010. The STB has responded by instituting a proceeding in Finance Docket No. 35506. Notices of the intent to participate were due October 13th. Initial evidence and arguments are due to the Board October 28th with reply statements due November 28th. The STB is moving this case along quickly as they need to publish the 2010 numbers soon -

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and the impact of including the premium in those numbers will and has created a fire storm.

This is a tremendously important issue to any captive rail customer served by BNSF. Obviously, inflation of the BNSF asset base through inclusion of part or all of the premium, will reduce return on investment and make BNSF appear even more "revenue inadequate" - farther away from the level of "revenue adequacy" which they were rapidly approaching right before the sale to Berkshire. The long term effect of inclusion of the 'acquisition premium' will raise the cost base - thereby raise the threshold of challenge (180% of variable cost) and leave the shippers with millions of dollars of higher rates without recourse of challenge.